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WAY FORWARD

DON'T LET TPP DIE

Bringing China in as a member is a good start



THE Trans-Pacific Partnership (TPP) talks must go on. Otherwise, it will be a missed opportunity. It will be a missed opportunity not just for Malaysia and the other 11 partner nations in the TPP agreement, but also for the rest of the world.

The world will have missed the opportunity to revive the global economy since the slowdown in trade in the 2007/08 world financial crisis through the TPP.

The new United States President, Donald Trump, and those who are so adamant to stop TPP in Malaysia, appear to have misunderstood the economic ideas behind the TPP, such as free trade, comparative advantage, competitiveness and opportunity cost.

As a result, we hear many unfounded allegations being made against the pact in Malaysia. And chief among them is that of the selling of Malaysia to the US, the argument which is currently being used against Malaysia-China bilateral ties.

The other politically motivated and emotional argument against the TPP is that Malaysia will lose jobs and our companies will close down due to the inability to compete with superior and more competitive companies, especially from the US. But, isn't the US using these same arguments against TPP?

Simply put, they view gains from trade under TPP only in absolute terms, whereas the theory of comparative advantage says otherwise. There is a good deal of empirical evidence that confirms the validity of

the theory of comparative advantage in explaining gains from trade.

As for free trade, Trump's decisions and understanding of it appear to be as "good" as his immigration order barring the citizens of seven Muslim-majority countries from entering the US and building a wall at the US-Mexican border and expecting the Mexicans to pay for it. I am not convinced that these measures will make "America safe again", as he promised in his inauguration speech. The same goes for his anti-free trade slant. Again, I don't see how protectionism, especially in the context of this century, will make "America great again".

As China's President Xi Jinping pointed out at Davos recently: "Protection is like locking yourself in a dark room". Xi's analogy is brilliant as it not only explained the concept of free trade explicitly, but also implicitly elucidated the notion of fair trade. I mean, how can you juxtapose free and fair if you are locking yourself in a dark room in the first place?

In their famous textbook titled *International Economics: Theory & Policy (8th edition)*, Paul Krugman, a Nobel laureate in economics and Maurice Obstfeld, professor of economics at the University of California, Berkeley, pointed out that: "If one is asking about the desirability of free trade, the point is not to ask whether low-wage workers deserve to be paid more but to ask whether they and their country are worse off exporting goods based on low wages than they would be if they refused to enter into such demeaning trade." In other words, fairness must be seen in the context of both trade-offs and opportunity costs.

So what is the way forward for TPP? What would the immediate impact be for Malaysia and what should we do in the near future? The impact for now seems minimal for two crucial reasons:

TPP, in its expected form and nature, has ceased to exist. Malaysia will only experience a significant im-

pact, in terms of losing expected benefits in improving growth, exports, and investments opportunities if we do not join the trade deal; and

Since independence, Malaysian economic management has followed the principle of never putting all one's eggs in one basket. Contingency plans have always been in place for any unforeseen circumstances. And because of that, Malaysia has options on the table in the event of the collapse of the TPP.

What are they? The first is the Regional Comprehensive Economic Partnership (RCEP). One of the main advantages of RCEP, compared with TPP, is its huge consumption market. We are talking about a combined population of 3.4 billion as opposed to 800 million under TPP. There are some who have argued that RCEP would not materialise due to the China and India dispute.

This argument is groundless as China and India have worked closely in another economic bloc, known as BRICS (Brazil, Russia, India, China, and South Africa). As Malaysia is committed to an open economy, exports to BRICS is worth pursuing.

As RCEP is an Asean-level free trade agreement (FTA), the realisation of the Asean Economic Community (AEC) in 2015 is another move to off-set lost opportunities.

AEC can also act to complement initiatives under RCEP and this will give an impetus for it to be finalised sooner, probably by the end of this year.

And, of course, the new era of Malaysia-China trade economic linkages will be another crucial exports and investments destination for Malaysia.

Having close ties with China is not just about bilateral engagement per se, but also about engagement with many China-led initiatives to deepen the process of globalisation moving forward.

These are, among others, the One Belt, One Road (OBOR) programme and the Asian Investment Infrastruc-

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ture Bank (AIIB).

And finally, the way forward for TPP. It is clear that the other 11 member countries are still hopeful of the future of this trade deal. This I think is a good beginning. It is time for them to renegotiate the agreement and reformulate the nature of its integration.

The withdrawal of the US from TPP will give an opportunity for China to play a greater role in the global economy.

Perhaps bringing China in as one of TPP's new member countries, as suggested by Australian Prime Minister Malcolm Turnbull is a good start. It may take some time to achieve this, but still, it is better late than never.

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